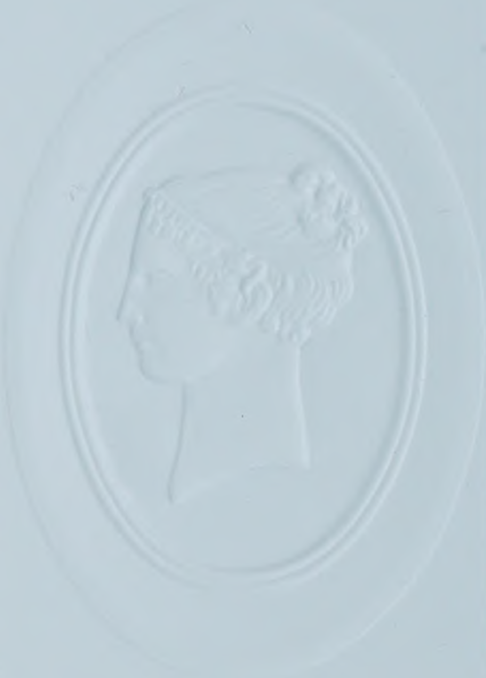
ANNUAL REPORT

Helene Curtis Industries, inc.

Year Ended February 28, 1967



Helene Curtis Industries, Inc. and Consolidated Subsidiaries

FINANCIAL SUMMARY

Operations

	Year Ended Feb. 28, 1967	Year Ended Feb. 28, 1966
Net Sales	$67,107,530	$63,608,166
Net Earnings (loss) before extraordinary items	(2,458,004)	303,782
Net Earnings (loss)	(1,666,577)	1,756,841
Per Share:		
Net Earnings (loss) before extraordinary item	($1.14)	$ .14
Net Earnings (loss)	($ .77)	$ .81

Balance Sheet

	Feb. 28, 1967	Feb. 28, 1966
Working Capital	$12,398,581	$ 9,216,032
Ratio of Current Assets To Current Liabilities	2.05/1	1.61/1
Shareholders' Equity	13,542,758	15,175,345
Long-Term Debt	3,640,642	1,008,428

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To Our Shareholders:

Sales for the year just ended were $67,107,530, as compared to $63,608,166 for the preceding year. In spite of this increase, a loss of $1,666,577 was incurred as compared to a profit of $1,756,841 for the previous year.

The difference in results is attributable almost entirely to high recruitment and other costs to expand our Studio Girl house-to-house sales business. As a result of this expansion program Studio Girl increased its volume in both the U. S. and Canada by more than 50%. Studio Girl is now "No. 2" in its field.

Our Studio Girl operation in England suffered from the severe austerity program that had been placed in effect by the English government. To continue the business there would have required a further substantial investment. We were reluctant to make this investment in view of this continuing austerity program and consequently disposed of our interest in the English subsidiary.

Except for Studio Girl operations, all major U. S. divisions operated profitably and foreign operations continued their upward trend in sales and earnings.

Studio Girl has reduced its costs for the current year and increased sales and earnings have been budgeted in other areas of the company. Improvement in operations is already being achieved and profitable overall results are expected. The company will have a tax loss carry-forward of about $2.6 million as a result of the tax treatment of last year's loss. This carry-forward will be applied to current year profits.

Respectfully submitted,

G. Gidwitz

Gerald Gidwitz
Chairman

W. Gidwitz

Willard Gidwitz
President

May 17, 1967

Year in Review

SALES

Net sales resumed their upward trend. Sales were $67,107,530 as compared to $63,608,166 in the previous year. Sales of the prior year included $3,096,552 attributable to divisions which were sold during that year. Taking the sales of the divisions that were disposed of into consideration, the actual increase in sales for the year just ended exceeded 10%.

Sales by Studio Girl in both the United States and Canada increased more than 50% over the prior year.

The company does not report sales made by its unconsolidated foreign subsidiaries and associates. However, these affiliates continued to establish new record sales levels.

EARNINGS

The company reported a loss of $1,666,577 in the year just ended. This compares to a net profit in the preceding year of $1,756,841.

The reported loss was net after profit from foreign subsidiary operations of $132,926 and an extraordinary non-recurring profit of $791,427. In our previous year we reported a loss from foreign subsidiary operations of $725,379 and a non-recurring profit of $1,453,059. Earnings from foreign subsidiary operations in both years were reported net of available tax credits.

With the exception of the Studio Girl operations, all major U.S. divisions operated profitably and foreign operations continued their upward trend in sales and earnings.

The world-wide tight money market as well as currency devaluations in certain foreign countries accounted for the slight decrease in reported foreign fees and licensing income. This took place even though sales increased. Foreign fees and licensing income are reported only as cash is received in the United States.

The manner in which the company has handled its loss for the year just ended has provided a tax loss carry-forward of approximately $2,600,000. This tax loss carry-forward will be applied against earnings of the current year and in effect will permit the company to report earnings of $2,600,000, if available, without any liability for Federal Income Taxes.

FINANCIAL

Working capital at year-end was $12,398,581. Long term indebtedness increased by $2,632,214.

Working capital improved as a result of refinancing a portion of previous current bank debt to a long term loan. Working capital was also improved by the disposition of the Studio Girl subsidiary in England and the consequent tax credits which became available.

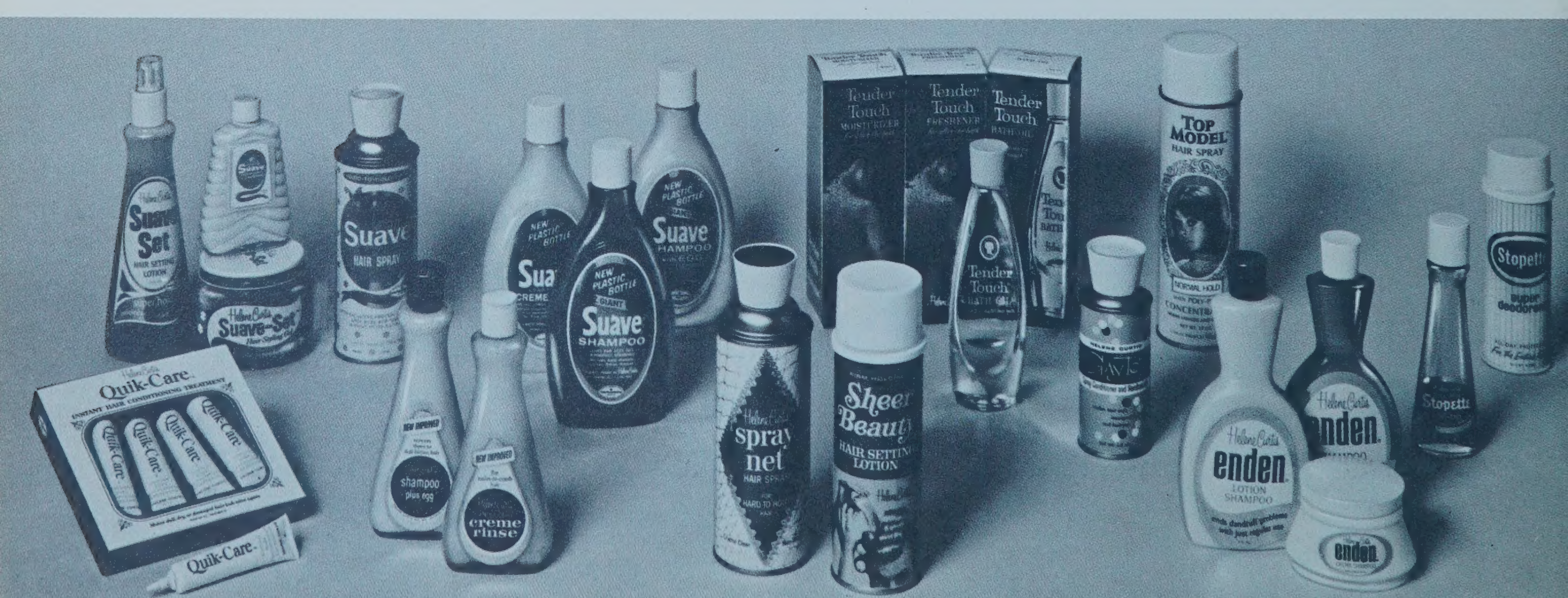
Depreciation was $764,931 and capital expenditures for improvements and equipment amounted to $897,891 compared with $848,811 and $551,491 for the preceding year.

Current forecasts indicate that funds are adequate for the business projected for the current year and no additional financing is being considered.

PRODUCTS

The Retail Division further consolidated its position in both the popular priced and premium priced toiletries categories. The *Suave* line of quality hair care products at popular prices has met with good acceptance and is being promoted effectively through all retail outlets. *Enden,* the *Tender Touch* line of dry skin products, *Quik-Care* hair conditioner and *Kings Men* grooming aids are all being nationally advertised. *Sheer Beauty,* the first hair setting lotion in an aerosol can, was introduced nationally in January, 1967. This new product is supported by both television and print advertising. Other new products are now in various stages of development and testing.

The Beauty Salon Division successfully introduced a new salon wave, *Revive,* to capitalize on the trend toward shorter, curlier hair. This introduction was supported by the heaviest national advertising cam-



HELENE CURTIS PRODUCTS
quality products for everyone

paign ever to support a professional wave introduction. Professional hair color sales continued to expand. Contributing to a substantial increase were a new temporary color rinse *(Sheer Color)* and a special bleach for tipping and frosting *(White Frosting)*. In the middle of 1966, the Division launched *ColorMaster*, a machine that dramatically reduces time required for salon hair color services. According to trade reports, *ColorMaster* outsold all competitive accelerating machines combined. The company also marketed a new professional hair dryer, *Her Highness*, the first salon dryer with solid state controls, resulting in faster, more comfortable drying.

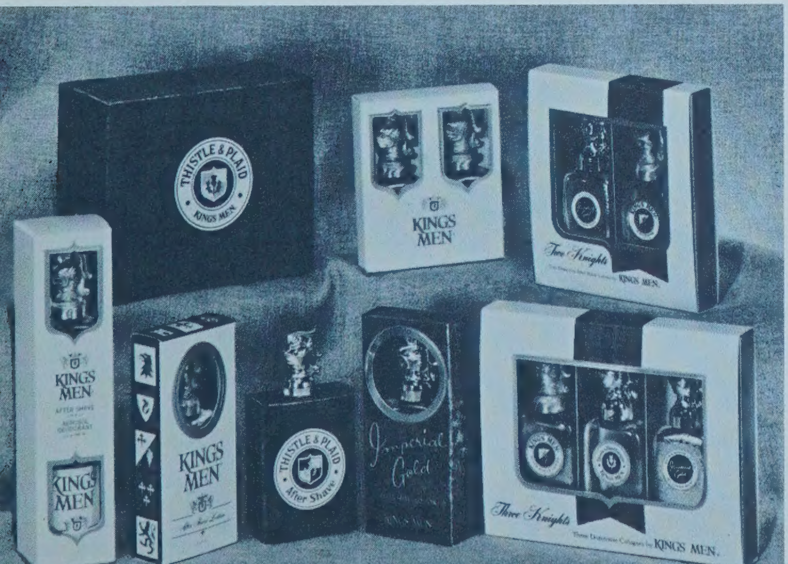
Protective Treatments, Inc. continues to progress in the development and sale of vinyl plastisol, butyl rubber and urethane sealants. Sales are made to automobile manufacturers, the automotive replacement market and the building industry. The new architectural extruded tape sealant has been selected and used on many significant projects including the U.S. Pavilion at Expo 67.

STUDIO GIRL

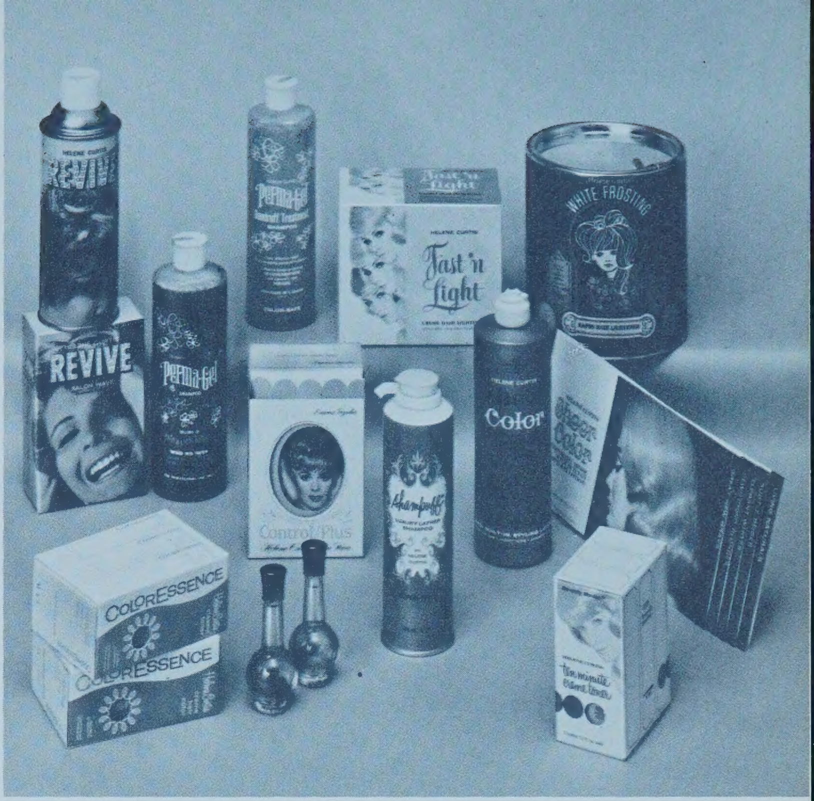
With the base formed as a result of its extensive recruiting investment, Studio Girl will consolidate its position this year. Expanded training of its field sales force is under way. New controls have been established for its field management program and a more intensive development of this area of its business will take place.

INTERNATIONAL ASSOCIATES

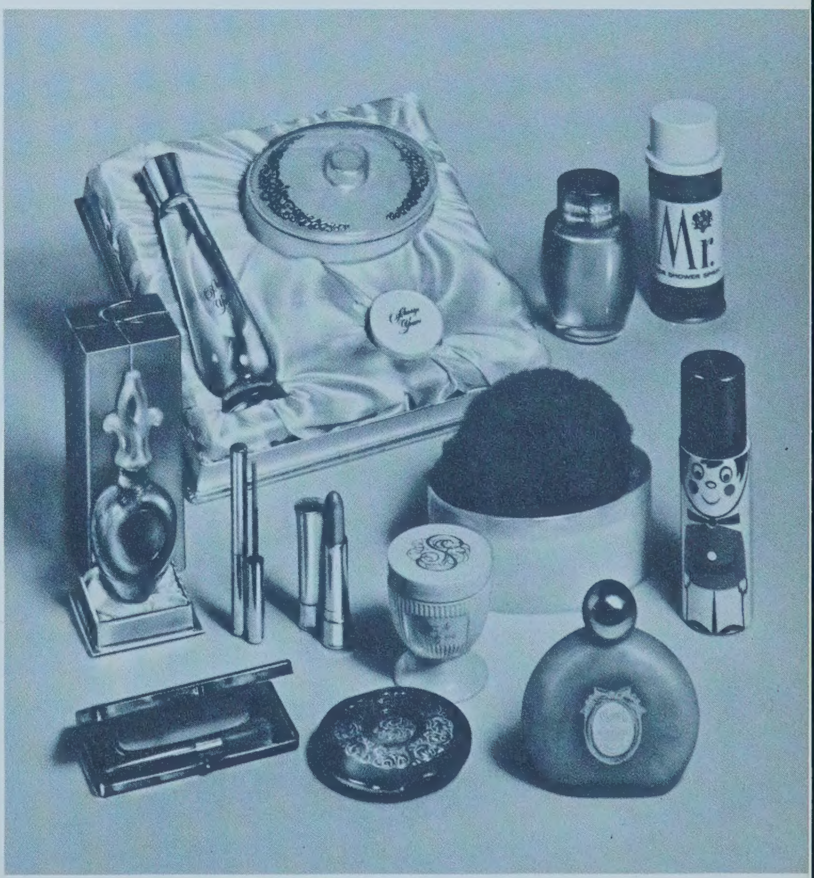
The company has licensed the manufacture and sale of its products in 81 different countries around the world. These affiliates (together with the company's subsidiaries) sell in virtually every major market in the world. Last year sales of Helene Curtis products by these foreign affiliates reached new record highs. To service these affiliates the company has placed additional technical and marketing representatives in the field. A further increase in sales and licensee fee income is anticipated for the current year.



KINGS MEN PRODUCTS
fine toiletries for men



BEAUTY SALON PRODUCTS
professional hair care products



STUDIO GIRL PRODUCTS
quality cosmetics sold direct to the customer in her home

Balance Sheets

February 28, 1967 and 1966

Assets	*1967*	*1966*
Current Assets:		
Cash	$ 2,257,805	$ 2,705,908
Marketable securities, at cost, which approximates market	11,500	159,000
Accounts and notes receivable, less allowance for doubtful items of $836,583 and $839,421	10,531,744	10,593,666
Refundable federal income taxes	1,147,554	201,867
Inventories (Note 2)	9,737,579	9,538,385
Prepaid expenses	568,796	1,193,788
Total Current Assets	24,254,978	24,392,614
Investments in and due from foreign subsidiaries and associates (Note 1)	492,673	2,327,893
Property, Plant and Equipment, at Cost:		
Land and buildings	757,000	1,361,575
Machinery and equipment	4,669,943	4,838,514
Leasehold improvements	2,373,453	2,277,837
Accumulated depreciation and amortization	(4,058,919)	(4,256,026)
	3,741,477	4,221,900
Other Assets:		
Excess of cost of businesses acquired over net assets at acquisition	140,391	127,200
Patents, trademarks and other intangibles, less accumulated amortization	251,492	266,469
Miscellaneous	259,957	127,927
	651,840	521,596
Total Assets	$29,140,968	$31,464,003

Liabilities and Shareholders' Equit

Current Liabilities:
- Notes payable:
  - Banks
  - Other
- Accounts payable and accrued expenses
- Federal income taxes

Total Current Liabilities

Long-Term Debt (Note 3):
- 5½% Senior Promissory Notes
- Notes payable, banks, 1% over prime rate, currently 6½%
- Other notes payable

Minority Interest in Subsidiary

Shareholders' Equity:
- Capital shares (Note 4):
  - Common shares, $1 par value, 5,000,000 shares authorized
  - Issued, 2,163,513 and 2,160,453 shares
- Capital in excess of par value of common shares (Note 4)
- Retained earnings (Note 3)

Less 7,878 treasury shares, at cost

Total Shareholders' Equity

Total Liabilities and Shareholders' Equity

The accompanying notes are an integral part of the financial statements.

1967	1966
$ 3,864,811	$ 7,828,868
367,380	223,936
6,771,446	6,380,184
852,760	743,594
11,856,397	15,176,582
600,000	800,000
3,000,000	—
40,642	208,428
3,640,642	1,008,428
101,171	103,648
2,163,513	2,160,453
5,544,770	5,513,840
6,050,946	7,717,523
13,759,229	15,391,816
216,471	216,471
13,542,758	15,175,345
29,140,968	$31,464,003

Statements of Earnings and Retained Earnings

Fiscal years ended February 28, 1967 and 1966

	1967	1966
Net Sales	$67,107,530	$63,608,166
Cost of Goods Sold	35,384,465	33,464,823
Gross Margin	31,723,065	30,143,343
Foreign fees and licensing income	1,578,873	1,593,498
Gross Income	33,301,938	31,736,841
Advertising, Promotional, Selling and Administrative Expenses	34,788,794	29,743,018
	(1,486,856)	1,993,823
Other Income and (Deductions):		
Interest income	359,239	134,872
Interest expense	(669,414)	(447,632)
Miscellaneous	139,838	21,794
	(170,337)	(290,966)
	(1,657,193)	1,702,857
Provision for income taxes (Note 5)	933,737	673,696
	(2,590,930)	1,029,161
Income (loss) from foreign subsidiary operations (Note 1)	132,926	(725,379)
Net Earnings (Loss) before extraordinary item	(2,458,004)	303,782
Extraordinary Item: Net gain on disposition of product lines, less applicable federal income taxes of $225,111 in 1967 and $111,139 in 1966	791,427	1,453,059
Net Earnings (Loss)	(1,666,577)	1,756,841
Retained Earnings, Beginning of Year	7,717,523	5,960,682
Retained Earnings, End of Year	$ 6,050,946	$ 7,717,523
Per share of common stock:		
Earnings (loss) before extraordinary item	$(1.14)	$.14
Extraordinary item, less tax	.37	.67
Net earnings (loss)	$(.77)	$.81

Notes to Financial Statements

(1) Principles of Consolidation:

Subsidiaries in which the Company owned the majority of voting stock have been consolidated, except for foreign subsidiaries incorporated outside the Western Hemisphere. Investments in and advances to these foreign subsidiaries have been stated at the equity in the underlying net assets of the companies, and their results of operations have been included in the statements of earnings. Federal income tax credits with respect to losses on these foreign subsidiaries are reflected when available; for the years ended February 28, 1967 and 1966 the credits attributable to subsidiaries sold were included in the accounts.

Investments in subsidiaries in countries outside of the Western Hemisphere where U.S. dollars are frozen are carried at cost.

(2) Inventories:

Inventories are stated at the lower of first-in; first-out cost or market. At the respective year ends, inventories consisted of the following:

	1967	*1966*
Raw materials	$3,154,419	$3,419,409
Work in process	755,282	651,091
Finished goods	5,827,878	5,467,885
	$9,737,579	$9,538,385

(3) Long-Term Debt:

Senior Promissory Notes mature in equal annual amounts of $200,000 through 1970. Notes payable to banks are due $200,000 quarterly with a final payment of $2,000,000 due on June 30, 1969. Under the note agreement with banks, the Company is also required to make current payments based on a percentage of net earnings, as defined, in excess of $1,000,000. Other notes payable are due $6,800 annually to 1975. Amounts due within one year are included in current liabilities.

The note agreements contain provisions, the most restrictive of which require that (a) consolidated working capital be at least $10,750,000 and not be reduced to below $15,000,000 by the payment of dividends and share acquisitions and (b) dividends and share acquisitions subsequent to February 28, 1966 be limited to the sum of $500,000 plus 75% of consolidated net earnings since that date. At February 28, 1967, no retained earnings were available for these purposes.

(4) Stock Options:

The Company has adopted a qualified stock option plan under which shares are reserved for issuance to key employees. Under the plan, option prices represent the market value of the stock at date of grant and options may be exercised ratably during each of four years after one year from date of grant. At February 28, 1967 options for 95,750 shares were outstanding (including 41,500 shares granted under a previous plan) and 23,479 shares were available for future grant. Option transactions during the year ended February 28, 1967 were as follows:

	Number of Shares	*Option Price Per Share*
Outstanding at beginning of year	102,501	$ 9.41 to $23.80
Granted	3,500	10.75 to 16.00
Exercised	(3,060)	9.41 to 9.50
Cancelled	(7,191)	9.41 to 17.96
Outstanding at end of year	95,750	10.75 to 23.80

The excess of market price at date of grant over the par value of shares exercised during the year of $30,930 was added to Capital in Excess of Par Value of Common Shares.

(5) Federal Income Taxes:

The Company and its domestic subsidiaries have elected to file separate federal income tax returns for 1967. Losses incurred in 1967 by certain subsidiary companies approximating $2,600,000 were thus not available to offset the taxable income of the other companies. The statement of earnings does not include recognition of the tax benefit arising from these losses, which are available to offset taxable income in future years.

(6) Commitments and Contingent Liabilities:

The Company and consolidated subsidiaries have entered into lease agreements which extend to 1983. Annual lease rentals for fiscal years ended February 28 are as follows:

	Approximate Annual Rental
1968 to 1972	$610,000 decreasing to $473,000
1973 to 1977	467,000 decreasing to 202,000
1978 to 1982	100,000 decreasing to 12,000

At February 28, 1967, unconsolidated foreign subsidiaries had unsecured bank loans (guaranteed by the Company) of $765,000 which are not reflected as liabilities in the balance sheet. The Company and consolidated subsidiaries are contingently liable for guarantees of notes discounted totaling $615,000.

A licensing agreement provides that the Company will pay minimum annual royalties of $112,000 in 1967, $103,000 in 1968 and 1969, and $75,000 in 1970.

(7) Depreciation and Amortization:

Depreciation and amortization charged to operations amounted to $764,931 and $848,811, in fiscal 1967 and 1966, respectively.

AUDITORS' REPORT

TO THE DIRECTORS AND SHAREHOLDERS
HELENE CURTIS INDUSTRIES, INC.
CHICAGO, ILLINOIS

We have examined the balance sheet of Helene Curtis Industries, Inc. and Consolidated Subsidiaries as of February 28, 1967 and the related statement of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements of the Company and Consolidated Subsidiaries for the year ended February 28, 1966.

In our opinion, the aforementioned financial statements present fairly the financial position of Helene Curtis Industries, Inc. and Consolidated Subsidiaries at February 28, 1967 and 1966, and the consolidated results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Chicago, Illinois,
April 24, 1967.

LYBRAND, ROSS BROS. & MONTGOMERY

Directors

GERALD GIDWITZ
Chairman

ARTHUR M. ADLER

MAX H. BRAUN

GEORGE M. FACTOR

JOSEPH L. GIDWITZ

WILLARD GIDWITZ

WALTER E. HELLER

DONALD MACARTHUR

FRANKLIN B. SCHMICK

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Chairman of the Board of Directors

WILLARD GIDWITZ
President

ARTHUR M. ADLER
Executive Vice President

MAX H. BRAUN
Vice President and Secretary

ALLEN D. CHOKA
Vice President

GEORGE M. FACTOR
Vice President

JOSEPH L. GIDWITZ
Vice President

BERNARD J. GROSS
Vice President

WALTER KAPLAN
Vice President

MARTIN L. TAUSZ
Vice President

SI RICHARD WYNN
Treasurer

Auditors

Lybrand, Ross Bros. & Montgomery
Chicago

Transfer Agents

American National Bank and Trust Company of Chicago

Chase Manhattan Bank
New York City

Registrars

Harris Trust and Savings Bank
Chicago

Morgan Guaranty Trust Company
New York City

Listed: New York Stock Exchange

Helene Curtis Industries

Ten Year

	Feb. 28, 1967	Feb. 28, 1966
Cash and securities	$ 2,269,305	$ 2,864,908
Accounts receivable (net)	11,679,298	10,795,533
Inventories	9,737,579	9,538,385
Prepaid expenses	568,796	1,193,788
Total Current Assets	24,254,978	24,392,614
Investments in and due from unconsolidated subsidiaries and associates	492,673	2,327,893
Property, plant and equipment, net after depreciation	3,741,477	4,221,900
Other assets	651,840	521,596
Total Assets	$29,140,968	$31,464,003
Total Current Liabilities	$11,856,397	$15,176,582
Long-term debt	3,640,642	1,008,428
Reserve for contingencies	—	—
Minority interest	101,171	103,648
Total Shareholders' Equity	13,542,758	15,175,345
Total Liabilities and Shareholders' Equity	$29,140,968	$31,464,003

Net sales	$67,107,530	$63,608,166
Depreciation and amortization	764,931	848,811
Earnings (loss) before income taxes and foreign subsidiary operations	(1,657,193)	1,702,857
Provision for taxes on income	933,737	673,696
Income (loss) from foreign subsidiary operations	132,926	(725,379)
Extraordinary items	791,427	1,453,059
Net earnings (loss)	($ 1,666,577)	$ 1,756,841

Inc. and Consolidated Subsidiaries

Financial Review

Feb. 28, 1965	Feb. 29, 1964	Feb. 28, 1963	Feb. 28, 1962	Feb. 28, 1961	Feb. 29, 1960	Feb. 28, 1959	Feb. 28, 1958
$ 1,879,606	$ 2,040,916	$ 2,472,347	$ 4,451,379	$ 6,883,807	$ 7,484,332	$ 4,322,126	$ 1,643,295
11,167,851	11,401,967	11,189,366	10,444,039	6,227,010	5,778,091	5,861,226	6,558,108
9,936,997	9,530,641	8,386,555	8,290,616	6,267,812	4,787,711	5,560,549	5,779,102
653,544	692,543	793,770	634,497	638,261	293,061	621,015	542,678
23,637,998	23,666,067	22,842,038	23,820,531	20,016,890	18,343,195	16,364,916	14,523,183
1,738,602	859,546	1,334,749	1,380,490	699,621	157,124	138,964	145,457
4,964,872	5,318,406	6,065,294	5,725,533	4,568,566	2,535,402	2,647,905	3,017,773
890,574	909,749	693,240	719,972	480,315	391,991	393,256	404,945
$31,232,046	$30,753,768	$30,935,321	$31,646,526	$25,765,392	$21,427,712	$19,545,041	$18,091,358
$16,559,874	$15,000,078	$13,739,900	$14,308,517	$ 9,070,772	$ 6,552,331	$ 6,097,918	$ 7,921,792
1,232,366	1,460,741	1,621,058	1,871,003	2,248,355	2,000,000	2,000,000	80,000
—	—	—	—	—	353,000	484,807	484,807
93,029	84,416	135,980	121,622	—	—	—	—
13,346,777	14,208,533	15,438,383	15,345,384	14,446,265	12,522,381	10,962,316	9,604,759
$31,232,046	$30,753,768	$30,935,321	$31,646,526	$25,765,392	$21,427,712	$19,545,041	$18,091,358
$71,440,608	$74,127,430	$74,527,196	$68,341,119	$54,038,126	$48,058,616	$47,295,151	$48,826,763
986,259	914,363	801,139	655,273	541,030	689,620	617,448	639,443
(855,115)	2,289,045	5,072,931	5,045,546	6,706,341	5,184,303	3,652,620	957,614
(322,249)	1,030,262	2,668,070	2,734,400	3,499,500	2,694,500	1,848,000	455,416
46,954	(1,042,942)	(827,704)	(279,354)	—	—	—	—
—	—	—	—	—	—	—	—
$ 485,912)	$ 215,841	$ 1,577,157	$ 2,031,792	$ 3,206,841	$ 2,489,803	$ 1,804,620	$ 502,198

Helene Curtis Industries, inc.

4401 West North Avenue, Chicago, Illinois 60639

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